

HOUSING MARKET OUTLOOK

Kitchener and Guelph CMAs



CANADA MORTGAGE AND HOUSING CORPORATION

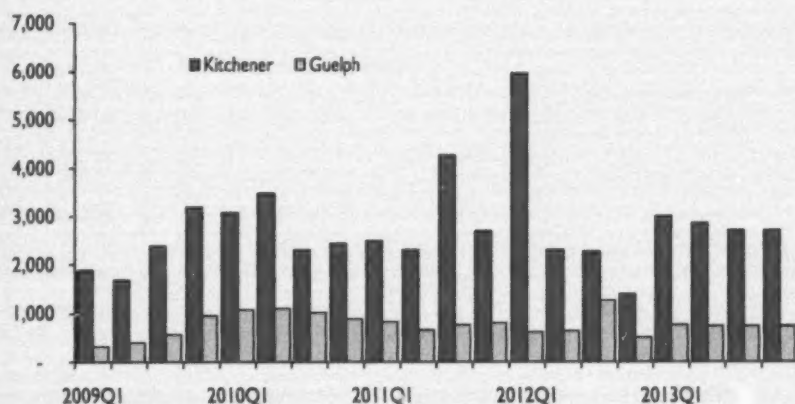
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Market at a Glance

- Existing home sales will slow in the latter part of 2012, but gain momentum in the second half of 2013 as employment conditions improve.
- Resale prices will remain relatively flat through 2013 as the market continues to be balanced.
- New home construction will decline slightly in 2013.
- Low mortgage rates and population growth will continue to support demand.

Figure 1

Housing Starts Slightly Lower in 2013



Source: CMHC forecasts

*The forecasts included in this document are based on information available as of October 17, 2012.

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Resale Home Market

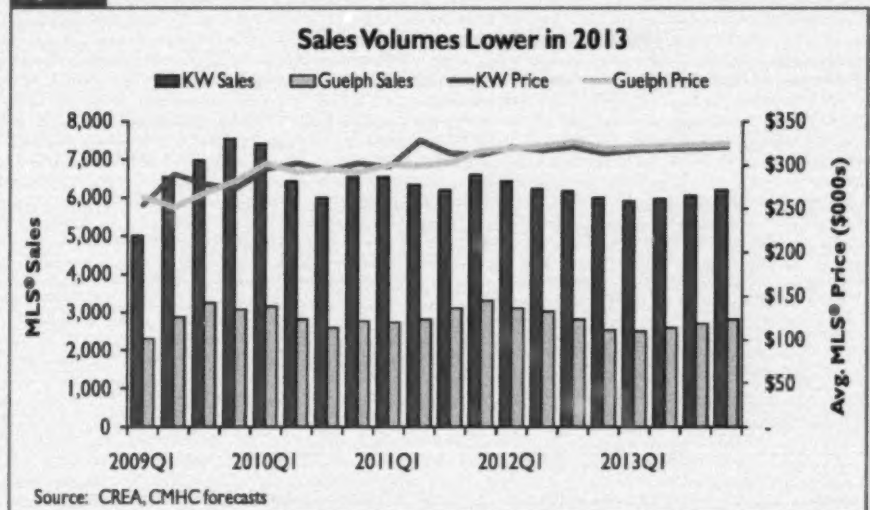
Sales slightly lower in 2013

Sales in 2013 in both KCW and Guelph will be slightly lower than in 2012. Although the Guelph resale market is currently favouring sellers, all resale markets in the area will be balanced in 2013. Overall, sales of existing home sold through the Kitchener-Waterloo Association of Realtors® will decline 2.8 per cent in 2013, while sales through the Guelph and District Association of Realtors® will decline by 5.3 per cent.

The slow pace of economic growth, global financial uncertainty and less favourable mortgage market conditions will temper gains in sales early in 2013. Despite sales volumes dropping on an annual basis, improving economic conditions and stable home prices will support housing demand by the second half of 2013. Mortgage rates will remain close to current levels for most of 2013. The low mortgage rates will continue to support demand. Population growth will also support housing demand. Migration will add close to 2,800 persons in 2013.

First-time buyer demand has declined. Although income growth has kept pace with home price growth in 2012, tightened mortgage rules have delayed some renter households from making the move to homeownership. Low vacancy rates are one indication that renter households are staying put longer. Tighter mortgage market conditions mean first-time buyers (FTBs) will have to save more for a down payment or look for a more

Figure 2



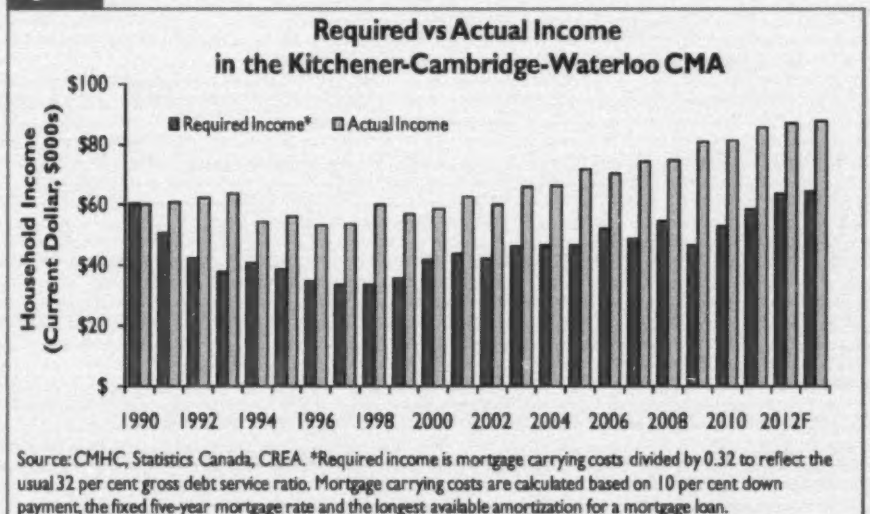
affordable home to purchase. This will result in some households remaining in rental accommodation longer. Move-up buyers will continue to drive demand as they are less sensitive to economic uncertainty and generally are households that have more equity.

Listings to decline

Listings have increased in 2012 in KW. The increase in listings for lower

priced home types was much higher than listings for more expensive single-detached homes. But, with fewer FTBs to buy these homes, some homes have been staying on the market longer. With more choice, buyers can take longer to make their choice. Move-up buyers have listed their homes for sale to take advantage of the equity in their homes, as prices remain high. This may be in anticipation of the expected

Figure 3



decline in prices due to softer market conditions.

Going forward, listings in KW will be lower than in 2012. With fewer FTBs, there is less demand for the home which move-up buyers are putting on the market. Also, with little to no price growth expected, homeowners have less of an incentive to move. More homeowners will be staying put. This may be good for the renovation market.

In Guelph, listings declined in 2012. One source of listings is move-up buyers listing their homes for sale to buy new. But, with lot shortages leading to lower single-detached construction, some move-up buyers decided to remain in their current homes and not list their homes for sale. In 2013, listings will again decline as home prices remain relatively stable.

Little price growth

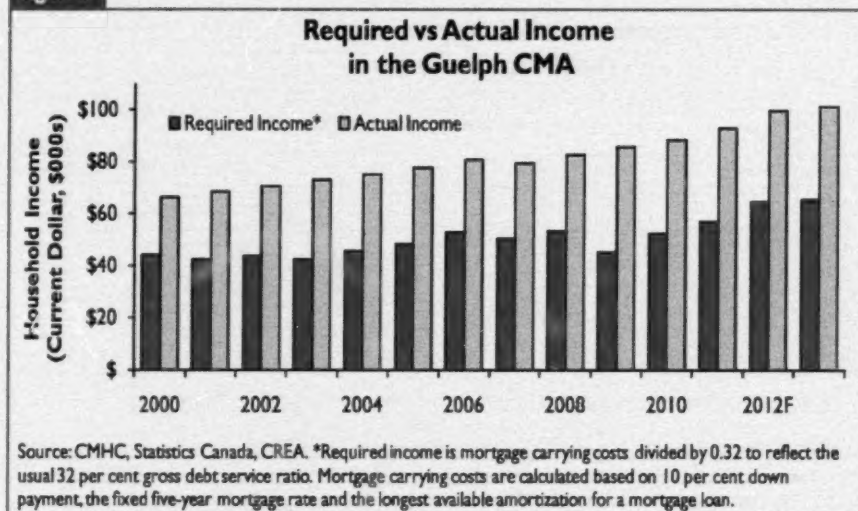
Kitchener prices will increase at a much slower pace than in Guelph in 2012. In 2013, both areas will see only marginal growth in home prices. With a balanced resale market, price growth has been more subdued in Kitchener. In Guelph, a sellers' market led to higher price growth in 2012. Both markets will be balanced throughout most of 2013.

New Homes Market

KCW starts to decline

Housing starts in the Kitchener-Cambridge-Waterloo (KCW) and Guelph Census Metropolitan Areas (CMAs) will decline slightly in 2013.

Figure 4



Starts will be in line with demographic needs. In KCW, more than 2,500 new households are expected to be added annually, while in Guelph more than 800 new households will be added. In addition, slowing employment growth, more choice and relatively lower prices in the resale home markets, and little growth in discretionary spending will create headwinds for new home construction in 2013. Economic uncertainty both in Europe and the U.S. is weighing on consumers and their intentions to buy a home. But, an improving economy by late 2013, low mortgage rates and population growth will support demand for new homes.

Overall, housing starts in KCW in 2012 will increase marginally from 2011. In 2013, starts will move slightly lower, with slight gains in single-detached construction being offset by lower apartment construction. Single-detached starts in KCW will move marginally higher in 2013 as construction begins on a new subdivision in West Waterloo. Single-detached construction has been on a downward trend over the past decade,

but has somewhat plateaued in the past couple of years. Demographic changes, land supply, affordability and Places to Grow all played a part in the decline of the single-detached home. Based on the average starts for the past five years, there is more than six years supply of lots available in draft-approved and registered plans. In the short-term, the number of registered lots influences starts activity. The supply of lots available for single-detached construction in Cambridge and Woolwich is less than a year and will impact new construction in these areas during 2013. But, with an increase in registered single-detached lots in Waterloo, starts will be higher in 2013. The average price of single-detached homes continued to rise in 2012. New single-detached absorbed prices increased more than ten per cent in the last year, well above the growth of about four per cent for detached homes in the resale market. Prices will continue to increase in 2013, but at a more subdued level than in 2012. Limited inventory and rising costs will exert upward pressure on prices. One of

the main reasons homebuyers look to the resale market first for a home is affordability.

Townhouse and apartment construction will slow somewhat from the strong pace of the past two years in KCW. Apartment starts will be little changed in 2012, with an increase in condominium apartment starts offsetting a decline in rental apartment starts. In 2013, both rental and apartment starts will decline from the elevated levels in 2011 and 2012. Although both rental and condominium apartment starts are expected to decline slightly in 2013, they will still be above their historical average. Higher density housing in KCW is in line with requirements to build more housing in built-up areas in Places to Grow. Demand from students, immigrants, young adult households, and downsizing baby boomers will support apartment starts in 2013. Higher density housing, especially near the universities and along the new LRT corridor will continue. But, new building north of the universities has been put on hold to formulate a revised community plan. First-time buyers and smaller households led to the increase in townhouse construction in 2012 and will support the strong level of townhouse construction in 2013. With new mortgage rules in place, many first-time buyers, who would like to buy new, are purchasing the more affordable townhouse. Condominiums are becoming more popular with investors, especially condominiums near the universities, which can be rented to students, both undergrad and graduate, young professors, and people working in the high-tech sector in uptown Waterloo. A Community Building Strategy is being

developed for the 36 km Central Transit corridor between Waterloo and Cambridge. This is a long-term strategy, but may be influencing where and when developers will be active in the short-term.

Household growth slowed between 2006 and 2011. This was reflected in the lower number of housing starts in the last five years. Households are getting smaller. One-person households, lone-parent households and couples with no children are increasing, while households comprised of couples with children are on the decline. What this means is that there will be increased demand for smaller accommodations and less demand for large family homes. Also, affordability will be front and centre for many of these households. Builders will need to respond to this new reality. In fact, this is what has been occurring. The increase in apartment construction and the decline of starts for single-detached homes has reflected the change in households. Adding to the increased demand for smaller properties is the impact of the baby boomers downsizing as they move into retirement.

Guelph starts to remain unchanged

In Guelph, starts will decline marginally in 2012 due to the slight decline in apartment construction. Construction will pick up in the second half 2012 and continue into 2013 as the City of Guelph moves to meet the targets set out in the Development Priorities Plan. In 2013, starts in Guelph will again remain virtually unchanged as an increase in single-detached construction is offset by a slight decline in apartment

construction. Single-detached construction will move slightly higher in 2013 as more registered lots become available for construction. An increase in townhouse and apartment construction in the last couple of years has been in response to the shift to higher density housing due to the Places to Grow and a demographic shift to smaller households.

Local Economy and Employment

Slow growth for the global economy and uncertainty regarding government debt will temper job creation in the immediate term. Growth in consumer and government spending will slow in 2013 resulting in slower employment growth in the government and retail sectors. Nevertheless, improving employment conditions in the US and less global economic uncertainty will boost job creation by the second half of 2013.

Both CMAs have a diverse economy, but do respond favourably to an improving US economy. Manufacturing jobs have been moving higher in KCW in the past few months, but this has been offset by lower employment in the services sector. Employment in the high-tech sector, which had been a source of growth, has stabilized. Public sector growth will be limited as governments struggle with high debt loads.

Kitchener average weekly earnings have increased over the last six months from lower first quarter levels. For 2012, growth will be about two per cent. Guelph wages peaked in the first quarter and have been declining for the past six months, but overall wage growth in 2012 will

be about six per cent. This strong wage growth has supported housing demand. With wage growth outpacing the growth in home prices in 2013, demand will respond favourably by the latter part of 2013.

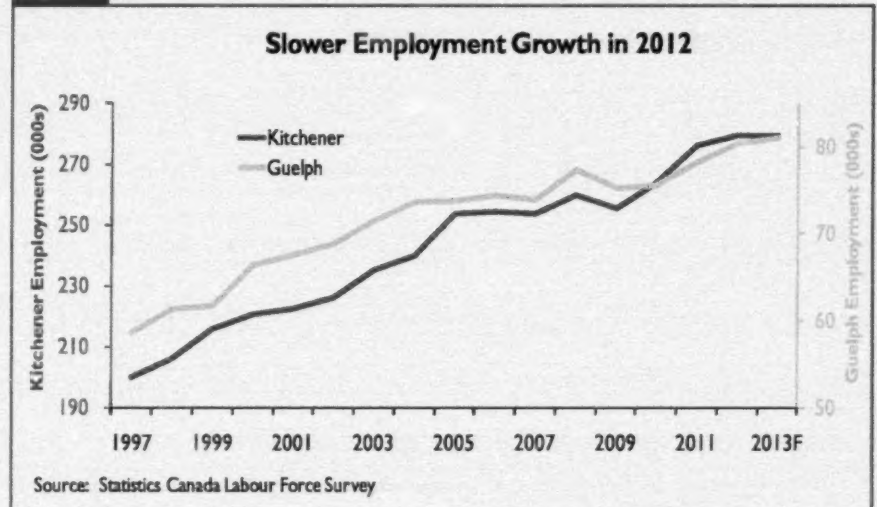
Mortgage Rate Outlook

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per

Figure 5



cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be

within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary
Kitchener-Cambridge-Waterloo CMA
Fall 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	6,495	6,589	6,406	6,200	-3.2	6,025	-2.8
MLS® New Listings	10,118	10,649	10,891	11,600	6.5	11,200	-3.4
MLS® Average Price (\$)	274,803	297,818	312,305	317,500	1.7	318,000	0.2
New Home Market							
Starts:							
Single-Detached	1,161	1,255	1,186	980	-17.4	1,025	4.6
Multiples	1,137	1,560	1,768	1,980	12.0	1,790	-9.6
Semi-Detached	62	94	38	40	5.3	40	0.0
Row/Townhouse	565	498	286	480	67.8	450	-6.3
Apartments	510	968	1,444	1,460	1.1	1,300	-11.0
Starts - Total	2,298	2,815	2,954	2,960	0.2	2,815	-4.9
Average Price (\$):							
Single-Detached	345,289	378,811	394,169	425,000	7.8	427,000	0.5
New Housing Price Index (% chg.)	0.6	1.3	2.9	2.9	-	2.0	-
Rental Market							
October Vacancy Rate (%)	3.3	2.6	1.7	1.7	0.0	1.8	0.1
Two-bedroom Average Rent (October) (\$)	856	872	889	915	-	935	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	255,400	263,700	276,100	279,400	1.2	279,500	0.0
Employment Growth (%)	-1.7	3.2	4.7	1.2	-	0.0	-
Unemployment rate (%)	9.5	8.0	6.8	6.6	-	6.6	-
Net Migration	2,533	3,087	2,862	2,800	-2.2	2,800	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Guelph CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	2,878	2,834	2,982	2,825	-5.3	2,675	-5.3
MLS® New Listings	4,456	4,542	4,507	4,350	-3.5	4,200	-3.4
MLS® Average Price (\$)	265,799	295,207	305,100	321,200	5.3	321,700	0.2
New Home Market							
Starts:							
Single-Detached	299	406	260	270	3.8	280	3.7
Multiples	268	615	504	480	-4.8	460	-4.2
Semi-Detached	74	34	50	50	0.0	50	0.0
Row/Townhouse	124	391	197	250	26.9	250	0.0
Apartments	70	190	257	180	-30.0	160	-11.1
Starts - Total	567	1,021	764	750	-1.8	740	-1.3
Average Price (\$):							
Single-Detached	367,011	385,227	436,502	433,000	-0.8	435,000	0.5
New Housing Price Index (% chg.) (Ont.)	0.1	2.4	3.6	n.a.	-	n.a.	-
Rental Market							
October Vacancy Rate (%)	4.1	3.4	1.1	1.0	-0.1	1.1	0.1
Two-bedroom Average Rent (October) (\$)	874	887	903	930	-	950	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	75,300	75,500	78,300	80,400	2.7	81,000	0.7
Employment Growth (%)	-2.7	0.3	3.7	2.7	-	0.7	-
Unemployment rate (%)	8.3	7.9	5.6	5.2	-	5.2	-
Net Migration	858	1,284	1,230	1,200	-2.4	1,200	0.0

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NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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